

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAЕ-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

EUR-12 IGA-02 LAB-04 SIL-01 DOTE-00 OPIC-03 /116 W

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R 221900Z APR 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 9864

INFO AMCONSUL GUAYAQUIL

CONFIDENTIAL QUITO 2931

E.O. 11652: GDS

TAGS: ENRG PFOR EC

SUBJ: SUPREME COUNCIL ALLOWS TEXACO-GULF INCREASED PRODUCTION COSTS

1. SUMMARY: THE SUPREME COUNCIL AGREED APRIL 21 TO ALLOW TEXACO-GULF TO CLAIM A PRODUCTION COST OF 60 CENTS A BARREL AND RECONSTRUCT AGUARICO BRIDGES WITH GOE FUNDS. TEXACO OFFICIALS UNCONCERNED ABOUT ROMANIAN ACTIVITIES IN ECUADOR. END SUMMARY.

2. MAX CRAWFORD, TEXACO'S LATIN AMERICAN, PRODUCTION MGR., NEAL WATKINS, TEXACO US. EXECUTIVE, AND MIKE MARTINEZ, LOCAL TEXACO MANAGER, CALLED ON CHARGE AND EMBOFF EVENING OF APRIL 21 TO REPORT ON DAY'S MEETING WITH MEMBERS OF THE SUPREME COUNCIL. TEXACO EXZVUTIVES WERE GENERALLY OPTIMISTIC ABOUT RESULTS OF THE MEETING AND IMPRESSED WITH THE ACTIVE AND POSITIVE ROLE ADMIRAL POVEDA AND NOW GENERAL LEORO AS WELL ARE ASSUMING IN THE NEGOTIATIONS. MINISTER OF NATURAL RESOURCES VARGAS IS IN GENEVA AND THERE WERE NO OTHER MINISTRY OFFICIALS PRESENT.

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3. THE SUPREME COUNCIL AGREED TO ALLOW TEXACO-GULF AN EXTRA

9 CENTS IN ITS COST OF PRODUCTION, I.E., THE PRESUMPTIVE COST OF PRODUCTION WILL NOW BE 60 CENTS INSTEAD OF 51 CENTS.

MARTINEZ SAID THIS WOULD ALLOW TEXACO-GULF TO PICK UP THE POOL WORKOVER RIG WITHIN THE NEXT SEVERAL WEEKS. THE DRAFT DECREE WILL ALSO STIPULATE A THOROUGH REVIEW OF TEXACO-GULF'S ECONOMIC SITUATION IN ECUADOR, A POINT WHICH VARGAS HAD PREVIOUSLY REFUSED TO INCLUDE. ADMIRAL POVEDA ASSURED TEXACO THAT THE DRAFT DECREE PROVIDING FOR THE INCREASE IN PRODUCTION COST WILL BE SIGNED APRIL 22.

4. THE SUPREME COUNCIL AND TEXACO ALSO WORKED OUT A PLAN TO REBUILD THE BRIDGES IN AGUARICO AT GOE EXPENSE. CRAWFORD SAID VARGAS' ABSENCE WAS ESSENTIAL FOR THIS AGREEMENT SINCE VARGAS HAD INSISTED THAT TEXACO-GULF WAS SOLELY LIABLE FOR THE EXPENSE. THE GOE WILL PAY FOR REBUILDING OF THE BRIDGES OUT OF A LUMP SUM TAX ("PRIMA DE ENTRADA") THAT TEXACO-GULF IS REQUIRED TO PAY TO THE GOVERNMENT. (THIS LUMP SUM PAYMENT TO THE GOE IS APPROXIMATELY \$600,000 PER YEAR.)

5. TEXACO-GULF CLAIMED IT HAD NO OBLIGATION TO REBUILD THE BRIDGES AFTER LAST YEAR'S FLOOD AND HAD PROVIDED A FERRY FOR ITS EMPLOYEES AND LOCAL CITIZENS. THE ERRATIC TRANSPORTATION CONTRIBUTED TO A RECENT STRIKE AND UNREST IN THE LAGO AGARIO AREA. REBUILDING OF THE BRIDGES WILL PROBABLY BE PUBLICLY BILLED AS A TEXACO-GULF CONCESSION TO THE GOE.

6. CRAWFORD IS RETURNING TO ECUADOR NEXT WEEK TO BEGIN DISCUSSIONS OF TEXACO-GULF'S MORE SERIOUS COMPLAINTS, I.E., GOE DEBTS TO TEXACO-GULF, DOMESTIC CONSUMPTION, AND AMORTIZATION, WHICH HAVE NOT YET BEEN DISCUSSED IN DEPTH WITH MEMBERS OF THE SUPREME COUNCIL.

7. INCONVERSATION WITH CHARGE, CRAWFORD TERMED "ABSURD" THE POSSIBLE ALLEGATION THAT TEXACO AND GULF MIGHT HAVE FURNISHED O'LEARY THE STORY SINCE TEXACO AND GULF WERE IN NO WAY CONCERNED ABOUT ROMANIAN INFLUENCE. CRAWFORD SAID HE PLANNED TO MAKE EVERY EFFORT TO DISCOVER THE ACTUAL SOURCE OF THE STORY.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, COSTS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 APR 1976
Decapton Date: 01 JAN 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: saccheem
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976QUITO02931
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760154-0789
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760433/aaaabcb.s.tel
Line Count: 107
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: saccheem
Review Comment: n/a
Review Content Flags:
Review Date: 10 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 MAY 2004 by woolfihd>; APPROVED <22 SEP 2004 by saccheem>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SUPREME COUNCIL ALLOWS TEXACO-GULF INCREASED PRODUCTION COSTS
TAGS: ENRG, PFOR, EINV, EC, GULF, TEXACO, TEXACO-GULF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006